


**City of San Diego**  
**M E M O R A N D U M**

**DATE:** May 29, 2007  
**TO:** Honorable Council President and Council Members  
**FROM:** Mary Lewis, Financial Management Director   
**SUBJECT:** Budgeted Fringe Accounts for Fiscal Years 2007 and 2008

---

At a recent Budget and Finance Committee meeting, a question was raised regarding the City's fringe benefits. This memorandum describes the various fringe accounts and the budgeting methodology used to allocate these costs among City departments. The budgeting methodology and rates applied in the Fiscal Year 2007 and 2008 budgets are included in the discussion of the fringe accounts.

**Overview**

There are 14 separate fringe accounts in the City's fiscal year 2007 budget that total \$359.5 million, which is 57.8 % of the total budgeted salaries in Fiscal Year 2007. The amount budgeted in the Fiscal Year 2008 Proposed Budget is \$381.8 million, or 63.8% of the total budgeted salaries.

The increase in the fringe rate in Fiscal Year 2008 is primarily due to the addition of \$20 million budgeted for the retiree health (OPEB) trust fund, an increase of \$3 million in the pension contribution and a \$3 million increase in projected workers' compensation costs. In addition, salaries will increase in Fiscal Year 2008 for several labor unions (Police Officers Association, Municipal Employees Association and Local 127) and variable fringe costs that are tied to salaries will increase proportionally.

Budgeted fringe accounts represent the costs for benefits such as Medicare, long term disability, retirement, and the Supplemental Pension and Savings Plan (SPSP). There are also departmental charges that are budgeted based on full time equivalents to appropriately charge departments for retiree health, both the "pay as you go" portion and the trust fund, the additional amounts budgeted for retirement above the ARC, (ARC Plus in Fiscal Year 2008), and amounts for current year workers' compensation claims. The following description of each of the fringe accounts describes how these accounts are budgeted in Fiscal Years 2007 and 2008.

**Budgeted Fringe Accounts**

**San Diego City Employees' Retirement System (SDCERS)**

The San Diego City Employees' Retirement System (SDCERS) actuary determines the Annual Required Contribution (ARC) at the end of the fiscal year and provides the rates by bargaining unit used to budget the ARC. These rates are incorporated into the Financial Management Information System and adjusted to generate the budgeted amount for the total retirement contribution for a given fiscal year. Budgeted rates for Fiscal Year 2007 vary from 20.34% to

40.03%, depending on the job classification and bargaining unit, and the total amount budgeted was \$162.7 million. The Fiscal Year 2008 budgeted amount is \$165 million, comprised of \$137.7 million for the ARC as determined by SDCERS for the period ending June 30, 2006, "ARC Plus" of \$20 million, and a \$7.3 million payback to the retirement system for health benefits inappropriately paid out of plan assets in prior years.

The Retirement Offset Account represents the amount of City employees' retirement contributions that the City pays, or offsets, for employees. The total amount budgeted for Fiscal Years 2007 and 2008 are \$19.7 and \$19.2 million respectively.

### **Supplemental Pension and Savings Plan**

The City opted out of Social Security in January 1982 and replaced it with the Supplemental Pension and Savings Plan (SPSP). SPSP accounts provide a convenient way for eligible employees to add to their savings for retirement income, which is in addition to the City Employees' Retirement System (CERS) benefits. Employees must pay a mandatory 3% and can voluntarily contribute up to an additional 3.05% for employees hired after 7/1/86, or 4.5% for employees hired on or before 7/1/86. This amount is deducted from employees' pay and placed into an SPSP account for the employee. The City also matches these contributions and this amount is deposited into the employee's SPSP account. The City's matching contribution is charged to the department as a fringe cost. The budgeted rate for Fiscal Years 2007 and 2008 is 5.43% and the total amount budgeted is \$22.3 and \$20.8 million respectively across all City departments.

### **Retiree Health Contribution**

This account is budgeted and charged to departments for the current retiree health costs, or the "pay as you go" portion of retiree health. It represents the payment for the retirees' health care premiums for the current fiscal year. The budgeted bi-weekly contribution per full time equivalent (FTE) for Fiscal Year 2007 is \$72.77 and the total annual amount budgeted is \$21.9 million; for Fiscal Year 2008 the contribution is \$84.23 bi-weekly and the total amount budgeted is \$23.1 million. The cap on premiums for Fiscal Year 2007 is \$646 a month for non-Medicare and \$654 a month for Medicare eligible retirees; for Fiscal Year 2008 the caps are \$695 and \$654, respectively.

### **Workers' Compensation**

Workers' Compensation laws ensure that employees who are injured on the job are provided with medical benefits, wage replacement and compensation for any permanent disability. State Workers' Compensation statutes establish this framework of laws for the City of San Diego. Budgeted rates for Fiscal Year 2007 and 2008 vary depending on job classification and claims experience. The total amount budgeted in Fiscal Years 2007 and 2008 is \$23.4 million and \$26.1 million, respectively, and represents the expected claims payments in each year for workers compensation. The City is self-insured for workers compensation and based on actual claims experience the City's costs may be below or in excess of the budgeted amount. If claims payments are in excess of the budgeted amount, rates may be adjusted upward during the year to accrue the necessary funds. If actual claims costs are below budget, excess funds that are charged to departments are transferred to the Workers Compensation fund balance and may lower the budgeted amount to be charged in the following fiscal year.

### **Flexible Benefits**

An Internal Revenue Service qualified cafeteria-style benefits program is offered to all eligible employees. All employees in one-half, three-quarter, or full-time status are eligible, while employees in hourly status are not eligible. The budgeted bi-weekly contribution for Fiscal Year 2007 is \$214.42 or \$5,575 per FTE, and the total amount budgeted is \$58.4 million. For Fiscal Year 2008, this rate has increased to \$233.65 or \$6,075 for MEA-represented employees only and the total amount budgeted in Fiscal Year 2008 is \$59 million. Benefit changes for one of the City's labor unions, the POA, will change the actual expense and there is a potential for savings in this budgeted account in the Police Department. Until the open enrollment period is completed in June 2007 the actual cost for flexible benefits in this department will not be known; depending on the outcome a mid-year budget adjustment may be needed if savings are identified.

### **Risk Management Administration**

The Risk Management Administration rate is established to support the appropriated expenditures that fund all of the programs and services provided by the Risk Management Department, which is an Internal Service Fund. These services include the administration of Workers' Compensation, Public Liability and Loss Recovery, Safety & Environmental Health, Employee Benefits, Savings Plans, Long Term Disability and Employee Assistance programs. The budgeted bi-weekly contribution for Fiscal Year 2007 is \$40.04 per FTE and the total amount budgeted is \$11.9 million; for Fiscal Year 2008 the contribution is \$33.12 and the total budgeted amount is \$9.1 million.

### **Long Term Disability (LTD)**

Benefited employees with more than 1 year of service who are disabled and cannot perform job functions may be eligible for LTD. This provides 70% of the employee's bi-weekly pay, after a 30 day waiting period, for up to 1 year and continuation of flexible benefits. If disabled from all gainful employment after 1 year, LTD continues to age 65. The budgeted rate for Fiscal Years 2007 and 2008 is 0.42% and the total amount budgeted is \$2.6 and \$2.5 million respectively.

### **Unemployment Insurance**

Unemployment Insurance provides temporary unemployment benefits to eligible workers who are unemployed through no fault of their own and meet other State law eligibility requirements. The budgeted rate for Fiscal Years 2007 and 2008 is 0.15% and the total amount budgeted is approximately \$1 million for each year.

### **Medicare**

Medicare is a federal tax that all employees and employers must pay for anyone hired after 1996. The budgeted rate for Fiscal Years 2007 and 2008 is 1.45% and the total amount budgeted is \$9.1 and \$9.3 million respectively.

### **Other Post Employment Benefits (OPEB)**

OPEB are considered post-employment benefits other than pensions, such as health insurance and dental, vision, prescription or other health care benefits and may also include some types of life insurance and legal services. OPEB frequently lack the legal definition and protections of pension plans and they typically have no formal funding mechanism other than pay-as-you-go. GASB statements 43 & 45 require that governments now begin to account for these liabilities in

much the same way they account for pensions. The new OPEB standards do not mandate the funding of OPEB benefits; the new standards only address accounting and financial reporting issues of liabilities related to OPEB. The City of San Diego is establishing a trust which will be used to fund these liabilities. The budgeted bi-weekly contribution for Fiscal Year 2007 is \$16.84 and the total amount budgeted is \$5 million; for Fiscal Year 2008 the contribution is \$91.87 and the total budgeted amount is \$25 million.

#### **Pension Liability Revenue**

During the labor negotiations for Fiscal Year 2006, agreements with labor unions and impasses resulted in the reduction of the City "pick-up" (City Offset) of the employee pension contribution. These agreements specify that the savings the City realizes, as a result of this reduction, must be used to address the UAAL. The pension liability account was created to capture the amount required to support a leverage mechanism to reduce the UAAL. The Pension Liability expenditure is charged to departments and a portion is used to backfill the Tobacco Settlement Revenues securitized in Fiscal Year 2006. The remaining amount will be leveraged before the conclusion of Fiscal Year 2008, as specified in the agreements, to further reduce the UAAL. The budgeted rate for Fiscal Years 2007 and 2008 is 3% and the total amount budgeted is \$18.4 and \$18.7, respectively.

#### **Unused Sick Leave**

Employees hired prior to July 1, 1975 who have sick leave on the books upon termination will be paid out an amount not to exceed 50% of their hourly balance at their current rate of pay. An employee may also use this sick leave in the same manner as annual leave while employed. The budgeted rate for Fiscal Years 2007 and 2008 is 0.07% and the total amount budgeted is \$464,946 and \$418,492 respectively.

#### **Management Benefit Package**

Management employees and employees in classifications specifically designated by the City Council are offered an additional Flexible Benefit allotment which is added to the negotiated dollar amount, called Management Benefits. Employees eligible for the Management Benefits are not eligible for overtime compensation in any form. The budgeted bi-weekly contribution for Fiscal Years 2007 and 2008 has remained the same at \$115.38 or \$3000 per FTE and the total amount budgeted is approximately \$2.6 million for each year.

### Fiscal Year 2007 and 2008 Budgeted Rates

The rates that follow are the budgetary rates used in the Financial Management Information System for Fiscal Year 2007 and the proposed rates for Fiscal Year 2008. In some cases these rates may differ from the actual rates used in the City's payroll system due to the variance between budgeted and actual salaries.

Fringe Account Title	FY2007 Budgeted Fixed Cost	FY2008 Budgeted Fixed Cost	Type
Flexible Benefits Plan	\$ 214.42	\$ 214.42	Bi-Weekly Amount
Flexible Benefits Plan MEA	\$ 214.42	\$ 233.65	Bi-Weekly Amount
Management Benefit Package	\$ 115.38	\$ 115.38	Bi-Weekly Amount
OPEB	\$ 16.84	\$ 91.87	Bi-Weekly Amount
Retiree Health Contribution	\$ 72.77	\$ 84.23	Bi-Weekly Amount
Risk Management Administration	\$ 40.04	\$ 33.12	Bi-Weekly Amount
Fringe Account Title	FY2007 Budgeted Rate	FY2008 Budgeted Rate	Type
Pension Liability Revenue	3.00%	3.00%	Percentage
SPSP	5.43%	5.43%	Percentage
Long Term Disability Insurance	0.42%	0.42%	Percentage
Medicare	1.45%	1.45%	Percentage
Unemployment Insurance	0.15%	0.15%	Percentage
Unused Sick Leave	0.07%	0.07%	Percentage
Workers Compensation	Rate Varies by Job Class		

### Fiscal Year 2007 – 2008 Budgeted Fringe

Fringe Account Title	FY2007 Budget	FY2008 Proposed Budget
Flexible Benefits Plan	58,418,624	59,083,030
Management Benefit Package	2,597,190	2,555,640
OPEB	4,998,518	25,000,000
Retiree Health Contribution	21,892,630	23,063,624
Risk Management Administration	11,877,463	9,081,466
Pension Liability Revenue	18,396,556	18,765,737
Retirement	162,715,584	165,150,478
Retirement Offset	19,670,849	19,153,484
SPSP	22,327,481	20,774,914
Long Term Disability Insurance	2,639,065	2,511,064
Medicare	9,104,062	9,320,106
Unemployment Insurance	1,004,715	896,940
Unused Sick Leave	464,946	418,492
Workers' Compensation	23,392,889	26,104,887
<b>Total</b>	<b>359,500,572</b>	<b>381,879,862</b>

The following rates shown were used to establish the budgeted retirement contribution of \$165 million in the Fiscal Year 2008 Proposed Budget. Rates may be adjusted upward during the year to account for fluctuations in actual staff in order to collect the full budgeted amount at year end.

**City Employee Retirement System Rates**

<b>Fringe Account</b>	<b>Fringe Account Title</b>	<b>FY08 Budgeted Rate</b>
2101	CERS - Legislative	40.03%
2102	CERS - General	20.34%
2103	CERS - Police	35.40%
2106	CERS - Fire	41.19%
2107	CERS - Lifeguard	30.62%
2201	CERS - Legislative Offset	5.38%
2202	CERS - General Offset Classified	3.90%
2202	CERS - General Offset Unclassified	4.68%
2203	CERS - Police Offset	6.79%
2206	CERS - Fire Offset	6.79%
2207	CERS - Lifeguard Offset	6.05%

ML/jfc

Cc: Honorable Mayor Jerry Sanders  
Ronne Froman, Chief Operating Officer  
Rick Reynolds, Assistant Chief Operating Officer  
Jay M. Goldstone, Chief Financial Officer  
Andrea Tevlin, Independent Budget Analyst